

Hertz Global Holdings (HTZ)

\$2.84 (As of 05/22/20)

Price Target (6-12 Months): **\$3.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/28/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: C

Summary

Hertz Global filed for bankruptcy as its business is being crippled by the coronavirus-induced waning demand for rental hire services with most people staying indoors. Notably, Hertz failed to pay roughly \$500 million to creditors by the deadline of May 4, thereby highlighting its poor financial condition. The company was granted an extension upto May 22 by its lenders. However, Hertz Global's creditors did not grant any further extension thereby resulting in the filing for bankruptcy protection. Management at Hertz Global also stated that all its operations are open and fully functional. Hertz Global believes that the move to file for Chapter 11 reorganization will enable it to improve its financial structure and emerge stronger. The company's efforts to control costs should also support bottom-line growth.

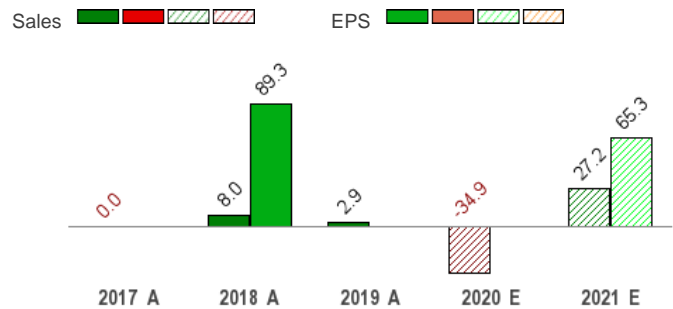
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$20.85 - \$2.32
20 Day Average Volume (sh)	26,659,950
Market Cap	\$403.5 M
YTD Price Change	-82.0%
Beta	1.70
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Transportation - Services
Zacks Industry Rank	Bottom 24% (187 out of 248)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-67.9%
Last Sales Surprise	-5.2%
EPS F1 Est- 4 week change	-81.2%
Expected Report Date	NA
Earnings ESP	10.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					8,097 E
2020	1,923 A	919 E	1,881 E	1,811 E	6,364 E
2019	2,107 A	2,511 A	2,836 A	2,326 A	9,779 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$1.03 E	-\$0.90 E	\$1.69 E	-\$0.12 E	-\$2.00 E
2020	-\$1.78 A	-\$2.63 E	-\$0.41 E	-\$0.95 E	-\$5.77 E
2019	-\$0.99 A	\$0.74 A	\$1.60 A	-\$0.24 A	\$1.44 A

*Quarterly figures may not add up to annual.

P/E TTM	8.9
P/E F1	NA
PEG F1	NA
P/S TTM	0.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/22/2020. The reports text is as of 05/26/2020.

Overview

Hertz Global Holdings, incorporated in Delaware in 2015, is the holding company for Rental Car Intermediate Holdings, LLC, which owns Hertz, the primary operating company of Hertz Global. Hertz was incorporated in Delaware in 1967.

The company, based in Estero, FL, is a key player in the vehicle rental industry and is responsible for the operation of vehicle rental services under the Hertz, Dollar and Thrifty brands. On Jun 30, 2016, Hertz Global Holdings spun off its equipment rental business. Following the spinoff, a new Hertz Global Holdings, Inc. was formed to focus exclusively on its car rental and related services business.

On May 22, 2020, Hertz Global Holdings filed for bankruptcy as its business is being crippled by the coronavirus-induced waning demand for rental hire services with most people staying indoors. The bankruptcy filing does not include Hertz's operations in Europe, Australia and New Zealand as well as its franchised locations in the United States.

Even though Hertz Global Holdings has filed for bankruptcy protection, it does not mean the end of the road for the company. In fact, by declaring bankruptcy, the company has made it clear that it intends to stay in business while restructuring its debts.

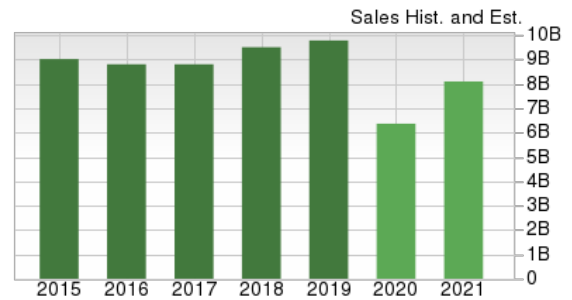
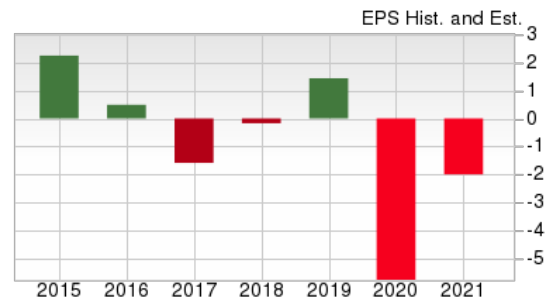
Hertz Global Holdings operates under three segments: **U.S. RAC** (accounted for 70.9% of the company's revenues in 2019), **International RAC** (22.2%) and **All Other Operations** (6.9%).

The U.S. RAC unit is responsible for the rental of vehicles, and sales of value-added products and services in the United States. Internationally, rental and leasing of vehicles as well as sales of value-added products and services are regulated by the International RAC unit.

The above segments offer various brands in order to present customers with a wide range of rental services at different prices, levels of offerings and products.

Geographically, 77.7% of the company's 2019 revenues stemmed from the United States and the rest was generated internationally. Hertz Global Holdings operated a rental fleet of approximately 567,600 vehicles in the United States and 204,000 vehicles internationally.

The company's fiscal year coincides with the calendar year.



Reasons To Buy:

- ▲ Even though Hertz has filed for bankruptcy protection, it does not mean the end of the road for the company. In fact, by declaring bankruptcy, the company has made it clear that it intends to stay in business while restructuring its debts. By doing so, Hertz intends to emerge as a financially healthier company. Notably, many companies have gone through this bankruptcy process and post record profits subsequently. Hertz hopes to do the same and generate substantial revenues once the used-car market re-opens for sales.
- ▲ We are also impressed with the company's efforts to control costs. Total expenses have largely been flat year over year in 2019. Moreover, direct vehicle and operating costs at the International Rental Car segment declined 6.7% year over year to \$265 million in the first quarter of 2020. While interest expenses contracted 9.1%, selling, general and administrative expenses fell 11.1% year over year
- ▲ The bankruptcy filing does not include Hertz's operations in Europe, Australia and New Zealand as well as its franchised locations in the United States. The decision to keep its European business solvent is indicative of its financial strength even in the current situation. Compared to its US operations, a larger proportion of its fleet of cars can be sold back in its European business to automakers at guaranteed prices.

We are impressed with the company's efforts to control costs.

Reasons To Sell:

- ▼ Hertz Global Holdings incurred a loss of \$1.78 per share in the first quarter of 2020, wider than the Zacks Consensus Estimate of a loss of \$1.06. Moreover, the amount of loss increased year over year. Results were significantly affected by decreased demand for rental cars amid coronavirus concerns. Quarterly revenues of \$1,923 million also missed the Zacks Consensus Estimate of \$2,029 million. Moreover, the top line declined 8.7% year over year due to weak performance by the U.S. and International Rental Car segments
- ▼ On May 22, 2020, Hertz Global filed for bankruptcy as its business is being crippled by the coronavirus-induced waning demand for rental hire services with most people staying indoors. Notably, Hertz failed to pay roughly \$500 million to creditors by the deadline of May 4, thereby highlighting its poor financial condition. The company was granted an extension upto May 22 by its lenders. However, creditors of this debt-laden company did not grant any further extension thereby resulting in the filing for bankruptcy protection. Notably, the company exited the March quarter with cash and equivalents of \$1,409 million, whereas its total debt amounted to a staggering \$20,598 million. The total debt to total capital ratio for Hertz increased to 0.93 at the end of the March quarter compared with 0.91 at the end of the fourth quarter of 2019. The sharp decline in used car prices has also decreased the value of its fleet.
- ▼ On May 18, 2020, Hertz named its fourth CEO in six years when its board of directors named Paul Stone as the new president and chief executive officer effective immediately. Prior to being elevated, Stone served as Hertz's executive vice president and chief retail operations for its North American business activities. Management's uncertainty further dampens investors' confidence.

Hertz's high debt levels are very concerning. The sharp decline in used car prices has also decreased the value of its fleet.

Last Earnings Report

Hertz Global Incurs Loss in Q1

Hertz Global incurred a loss of \$1.78 per share in the first quarter of 2020, wider than the Zacks Consensus Estimate of a loss of \$1.06. Moreover, the amount of loss increased year over year. Results were significantly affected by decreased demand for rental cars amid coronavirus concerns.

Quarterly revenues of \$1,923 million also missed the Zacks Consensus Estimate of \$2,029 million. Moreover, the top line declined 8.7% year over year due to weak performance by the U.S. and International Rental Car segments.

Quarter Ending **03/2020**

Report Date	May 11, 2020
Sales Surprise	-5.23%
EPS Surprise	-67.92%
Quarterly EPS	-1.78
Annual EPS (TTM)	0.32

Segmental Performance

In the quarter under review, the U.S. Rental Car segment generated revenues of \$1,381 million, down 9% year over year. This downside was caused by a decline in transaction days as a result of a dramatic drop in March volumes amid coronavirus-led travel bans and shelter-in-place orders across the United States.

Vehicle utilization declined to 67% from 79% a year ago. Transaction days fell 11% year over year. Total revenue per transaction day (RPD) increased 2%. Adjusted EBITDA for the segment was (\$199 million) in the first quarter against \$7 million a year ago.

Segmental direct vehicle and operating expenses dropped slightly to \$969 million. Meanwhile, interest expenses jumped 21.9%. However, selling, general and administrative expenses declined 4.9% year over year.

The International Rental Car segment generated revenues of \$368 million, down 15% year over year due to decreased volumes in March. Segmental revenues fell 12% on a constant-currency basis. Vehicle utilization fell to 66% from 74% in the year-ago quarter. Segmental RPD was flat year over year.

Segmental direct vehicle and operating costs declined 6.7% year over year to \$265 million. While interest expenses contracted 9.1%, selling, general and administrative expenses fell 11.1% year over year. Adjusted EBITDA for the segment came in at a loss of \$45 million compared with a loss of \$13 million in the first quarter of 2019. Meanwhile, revenues from all other operations climbed 13% to \$174 million.

Balance Sheet Highlights

The company exited the first quarter with cash and cash equivalents of \$1,017 million compared with \$865 million at the end of 2019. Restricted cash and cash equivalents at the end of the period came in at \$392 million compared with \$495 million at 2019-end. As of Mar 31, 2020, total debt amounted to \$18.75 billion compared with \$17.09 billion as of Dec 31, 2019.

Recent News

New CEO Appointed — May 18, 2020

Hertz named its fourth CEO in six years when its board of directors named Paul Stone as the new president and chief executive officer effective immediately. Prior to being elevated, Stone served as Hertz's executive vice president and chief retail operations for its North American business activities. Stone replaces Kathryn V. Marinello as the CEO. Marinello will remain at Hertz as a consultant for a year.

Valuation

Hertz Global shares are down 82% and 81.7% in the year-to-date period and over the trailing 12-month period respectively. Stocks in the Zacks sub-industry and the Zacks Transportation sector are down 11.3% and 22.9% in the year-to-date period respectively. Over the past year, the Zacks sub-industry and the sector are down 0.1% and 17.5% respectively.

The S&P 500 index is down 8.1% in the year-to-date period. However, it has gained 4.5% in the past year.

The stock is currently trading at 0.27X trailing 12-month price-to-book value, which compares to 5.74X for the Zacks sub-industry, 2.37X for the Zacks sector and 4.04X for the S&P 500 index.

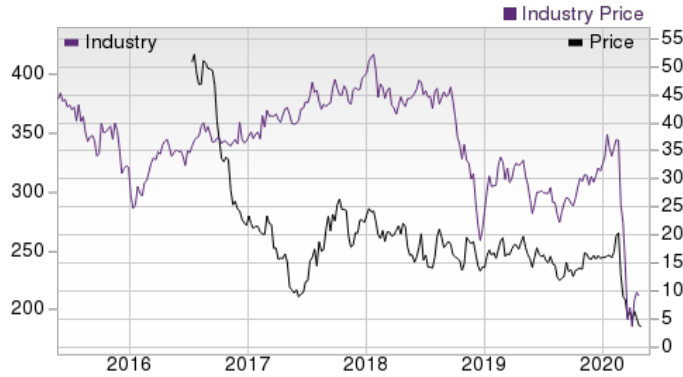
Over the past three years, the stock has traded as high as 2.65X and as low as 0.25X, with a 3-year median of 1.28X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$3 price target reflects 0.29X trailing 12-month book value.

The table below shows summary valuation data for HTZ

Valuation Multiples - HTZ					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.27	5.74	2.37	4.04
	3-Year High	2.65	5.88	3.95	4.06
	3-Year Low	0.25	2.61	2.06	3.03
	3-Year Median	1.28	4.28	3.41	3.92
EV/EBITDA TTM	Current	4.98	12.86	7.07	10.93
	3-Year High	7.02	17.14	11.16	12.86
	3-Year Low	3.35	8.93	5.44	8.29
	3-Year Median	5.45	13.05	7.84	11.21
P/S F12M	Current	0.06	1.45	1.09	3.33
	3-Year High	0.28	1.74	1.42	3.44
	3-Year Low	0.05	1.21	0.84	2.76
	3-Year Median	0.18	1.51	1.19	3.16

As of 05/22/2020

Industry Analysis Zacks Industry Rank: Bottom 24% (187 out of 248)



Top Peers

Company (Ticker)	Rec	Rank
AutoNation, Inc. (AN)	Neutral	3
Avis Budget Group, Inc. (CAR)	Neutral	3
J.B. Hunt Transport Services, Inc. (JBHT)	Neutral	3
Ryder System, Inc. (R)	Neutral	3
Sonic Automotive, Inc. (SAH)	Neutral	3
CarMax, Inc. (KMX)	Underperform	5
Penske Automotive Group, Inc. (PAG)	Underperform	4
WYNDHAM DESTINATIONS, INC. (WYND)	Underperform	4

Industry Comparison Industry: Transportation - Services				Industry Peers		
	HTZ	X Industry	S&P 500	AN	CAR	KMX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	4	-	-	3	3	5
VGM Score	B	-	-	A	B	D
Market Cap	403.47 M	934.20 M	20.16 B	3.47 B	1.16 B	13.26 B
# of Analysts	5	3	14	7	5	8
Dividend Yield	0.00%	0.00%	2.11%	0.00%	0.00%	0.00%
Value Score	A	-	-	A	A	D
Cash/Price	3.76	0.16	0.07	0.13	0.82	0.04
EV/EBITDA	5.07	7.12	12.07	5.22	4.54	19.25
PEG Ratio	NA	3.04	2.72	3.92	NA	2.66
Price/Book (P/B)	0.27	2.30	2.77	1.22	3.98	3.54
Price/Cash Flow (P/CF)	0.13	6.14	10.95	5.94	0.36	12.07
P/E (F1)	NA	24.52	20.22	13.92	NA	30.44
Price/Sales (P/S)	0.04	0.61	2.12	0.17	0.13	0.65
Earnings Yield	-203.17%	3.38%	4.71%	7.19%	-39.23%	3.29%
Debt/Equity	13.81	0.47	0.76	0.84	60.25	4.08
Cash Flow (\$/share)	22.61	1.92	6.96	6.70	46.65	6.76
Growth Score	C	-	-	B	D	D
Hist. EPS Growth (3-5 yrs)	NA%	12.07%	10.87%	3.84%	5.79%	15.66%
Proj. EPS Growth (F1/F0)	-500.83%	-45.68%	-10.31%	-37.17%	-278.26%	-49.74%
Curr. Cash Flow Growth	14.79%	-4.59%	5.46%	2.81%	35.37%	7.77%
Hist. Cash Flow Growth (3-5 yrs)	3.24%	11.86%	8.55%	2.53%	7.65%	9.70%
Current Ratio	2.19	1.47	1.29	0.95	0.85	2.39
Debt/Capital	93.25%	35.16%	44.54%	45.57%	98.37%	80.32%
Net Margin	-2.78%	2.52%	10.54%	0.60%	2.61%	4.37%
Return on Equity	-0.12%	7.96%	16.27%	13.97%	51.68%	24.46%
Sales/Assets	0.37	1.24	0.54	1.99	0.38	1.00
Proj. Sales Growth (F1/F0)	-34.93%	-2.78%	-2.49%	-13.12%	-36.80%	-23.63%
Momentum Score	C	-	-	B	C	B
Daily Price Chg	-7.49%	0.00%	0.12%	-0.33%	0.97%	1.41%
1 Week Price Chg	-19.27%	-3.61%	-4.56%	-6.84%	-19.40%	-1.16%
4 Week Price Chg	-28.10%	7.36%	5.28%	28.60%	39.22%	23.58%
12 Week Price Chg	-78.40%	-11.88%	-8.60%	-6.27%	-47.77%	-7.53%
52 Week Price Chg	-81.86%	-19.67%	-6.15%	1.79%	-44.10%	6.21%
20 Day Average Volume	26,659,950	130,342	2,645,192	1,012,465	8,164,471	1,757,463
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	3.36%	0.00%	0.00%
(F1) EPS Est 4 week change	-81.17%	-14.94%	-3.80%	-9.78%	-262.75%	-23.82%
(F1) EPS Est 12 week change	-444.80%	-45.27%	-16.57%	-41.75%	-267.82%	-52.06%
(Q1) EPS Est Mthly Chg	-93.89%	-26.77%	-7.64%	-207.64%	-241.25%	-93.41%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	C
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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